

DROP Low Risk, Variable Rate Option

Frequently Asked Questions

“SECTION 26 DROP

(D) Interest and Administrative Costs – Interest shall accumulate annually, whether positive or negative, during the DROP calculation period, less the cost of administering the DROP, all of which shall be determined by the Board of Trustees.

A DROP participant shall have the opportunity to elect, as provided in this subsection, an investment option to be applied to such DROP participant’s account for the Plan Year when entering the DROP and for each subsequent Plan Year.

In such election, the DROP participant shall choose to have interest accumulate annually, whether positive or negative, at either

- (i) a rate reflecting the Fund’s net investment performance, as determined by the Board of Trustees, or*
- (ii) a rate reflecting a low-risk variable rate selected annually by the Board of Trustees in its sole discretion.*

Each election must be made at such time, on such forms, and in such manner as the Board of Trustees may determine in its sole discretion.

If the DROP participant fails to make a valid election upon entering the DROP, the Fund interest rate shall be applied as provided herein.

If the DROP participant fails to make a valid election in a subsequent Plan Year, the election for the then-current Plan Year shall be applied.”

Q1. What is the purpose of this low risk, variable rate option for DROP?

A1. To provide the opportunity for risk averse DROP participants to choose a less risky option for their DROP money than the pension fund’s return. The primary purpose of this low risk, variable rate option is **capital preservation** – not growth and not income.

Q2. When did this option become available?

A2. October 1, 2011 prospectively.

Q3. When can I sign up for the low risk, variable rate option?

A3. Each October 1-31 while you are in DROP.

Q4. How many times per year can I change my DROP return option?

A4. Once per year, in October.

Q5. Why October?

A5. This benefit option became effective October 1, 2011. The fund's fiscal year begins October 1, and DROP statements are based upon the fiscal year beginning October 1. By each October, the *preliminary* rate of return of the fund, as provided by the investment manager, for the fiscal year just ended September 30 is available so that DROP participants can make an informed decision on whether they want to choose the fund's return or the low risk, variable rate option return for the fiscal year beginning October 1.

Q6. How do you envision this working for someone who is in DROP for 5 years?

A6. Everyone's financial obligations are different. It is assumed that many DROP participants starting out may choose the fund's return option for the 1st, 2nd and probably 3rd year if the market is stable and fund returns are positive. However, in their 4th and 5th year when they have the highest amount of DROP money at risk, it is assumed that some may become more risk averse and choose the low risk, variable rate option to minimize potential loss of capital. Of course no one can predict human behavior or the capital markets with precision.

Q7. Hypothetically, if I choose the fund return in October 2017, but the market goes way down in January 2018, when is the soonest I can change to the low risk, variable rate option?

A7. In October 2018. You may change your DROP rate of return option once per year in October.

Q8. Why is the low risk, variable rate option so low?

A8. There is a risk / return tradeoff in any investment. Low risk generally yields low return, because it has less potential for significant loss. Higher risk generally yields higher return in order to compensate for the risk being taken, but also has the potential for significant losses. Recall that the primary purpose of this low risk, variable rate option is *capital*

preservation, safety of capital. The market yield on very low risk investment vehicles is very low right now.

Q9. Is the low risk, variable rate option just like the Nationwide fixed account or the FRS fixed rate for the FRS DROP?

A9. No. It is not a *fixed* rate, it is low risk and will vary with the market.

Q10. Does the low risk, variable rate option guarantee that I can't lose any money?

A10. No. There are no guarantees. However, it is highly unlikely that the return on such a low risk vehicle would turn negative – approach zero, yes, but significantly negative, highly unlikely.

Q11. What if I don't make an affirmative election one way or the other in future years while I'm in DROP?

A11. Then you would remain in whatever DROP return option you were in the previous year. "If a DROP participant fails to make a valid election in a subsequent Plan Year, the election for the then-current Plan Year shall be applied."

Q12. Can I split my DROP and put part in the fund return and part in the low risk, variable rate option, say 70% in the fund return and 30% in the low risk, variable rate option?

A12. No.

Notes:

These FAQs are intended to provide general information. If there is a conflict between this document and the pension plan document, the pension plan document shall prevail.

A *preliminary* return may differ from a final, actual return once the fiscal year ending September 30 books have been closed out, generally by the November board meeting.

Past performance is no indication of future performance.